

THE ECONOMIC CRISIS BEHIND SOVIET EXPANSION

Does Russia's "Business Cycle" Compel Foreign Aggression?

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ONE of the more urgent mysteries, in a world where mysteries are becoming all too common, is the motive power behind the great expansionist drive of the Soviet Russian state: eastward into Asia and westward into Europe. Neither of the two most popular explanations—an unbridled lust for power or an intransigent social idealism on the part of the Soviet leadership—can do justice to the complicated pattern of events, for they start from erroneous premises. The fact is that the Kremlin houses neither mere adventurers, nor men propelled by passionate devotion to the idea of "world revolution" or "world Communism."

On the contrary: they are prisoners of basic maladjustments in their own economic system, which drives them inexorably to seek an escape in external conquest.

It is difficult for us to comprehend this—though it is no less difficult for the Russians, if that is any consolation. Russian econo-

mists show no ability to understand their own economic system, or even to observe and accurately describe its workings. Indeed, for a good many years, and even today, one of the most dangerous and fruitless professions in Russia has been that of an economist.

Back in 1930, leading members of the Communist Academy in Moscow engaged in a bitter theoretical controversy which, if carried through, might have led to some interesting discoveries. The central issue of the argument, couched in the abstract terms dear to Soviet rhetoricians, was the "character" of the Russian state economy. Karl Marx had begun his analysis of capitalism with an inquiry into the nature of the commodity. Consequently, the Russian Marxists turned their attention to the product turned out by Soviet industry. Was it a commodity?—it was, after all, sold on a market at state-controlled prices. If so, then—according to the orthodox definition—capitalism still prevailed in Russia. Or was it rather a socialist product and not a commodity at all? In which case, how account for the role of money and markets and prices?

A full exploration of these questions would have led to statistical and factual investigations of the structure of production in Soviet Russia, price movements, fluctuations in supply, and, perhaps, the impact on the economic system of the party line. However, the discussion was suddenly terminated by order of the Politbureau and the texts involved were never published.

In 1943, the Soviet economists gained a new lease on life as the result of the promulgation of a new doctrine, rid of any dangerous implications. In an article* in *Pod*

WHAT is the moving force behind Soviet expansion? Is it a policy based on the whims of Soviet leaders, is it part of a dream of world revolution and socialization, or is it the effort to resolve by external means certain basic maladjustments in the Soviet political and economic system? The discovery of the correct answer to this question is perhaps the key problem facing international politics today. In this article, GUENTER REIMANN puts forward his own explanation of the dynamic behind Soviet aggression. Dr. Reimann is a well-known student of totalitarian economics and politics. He is the author of several books, among them: *The Vampire Economy* (1930), *Myth of the Total State* (1941), and *Patents for Hitler* (1942). He was born in Germany in 1904 and studied economics at the University of Berlin and the London School of Economics. At present he is preparing a book on the economic system of the Soviet Union.

* An English translation of this article appeared in the *American Economic Review* for September 1944.

Snaniem Marxisma on "Teaching Economics in the Soviet Union," a group of Russian economists declared that the laws of economic value (labor theory of value, and so on) which Marxism held to be valid under capitalism also applied to Russian "socialism," and that prices and markets have their proper place in the Soviet system. But—and here was the "socialist" novelty—the operation of these laws is controlled by the state instead of the reverse; where formerly society was at the mercy of blind economic surges, now economic laws are, as it were, legislated by the state. In accordance with this doctrine, the various stages of Russian economic development are viewed as a continuous and self-controlled progression from defense against foreign intervention (War Communism), to reconstruction (New Economic Policy), to the building up of socialism (first two five-year plans), to the final realization of socialism. It is officially estimated to have taken place in 1936 (though there has been some confusing double-talk on this matter).

SURPRISINGLY enough, this account of the Russian economic system is held in high regard by many self-designated "realistic" political thinkers outside the Soviet Union. These accept the Soviet thesis that socialism has been the consistent goal of the Stalin regime and that it has been just about attained. They explain the Russian drive for empire as a technological necessity on the part of a planned industrial society—a sort of organic socialist imperialism. The great remaining problem for the Soviet system, they say, is to secure *Grossraum*—a geographic and demographic base broad enough to facilitate full use of mass-production techniques.

This analysis holds little water, either in theory or in fact. The incorporation in the Soviet economy of some thousands of skilled German technicians, and millions of dollars worth of German machinery, certainly should have provided an ample and secure enough technological foundation for such a planned economy. But the expansionist drive continues, beyond the Oder, beyond

Manchuria. And indeed, if the notion that the Russian state is based on a harmonious system of rational planning were true, there would seem to be no need for external expansion at all; given Russia's raw materials and her present population, such a system would be able to create a substantial and stable internal market, and would have no difficulty in training suitable technicians.

The root error of this argument is its premise: that Soviet Russia is a smoothly functioning "planned society." In reality, the exact opposite is the case. The Russian economic system is one of anarchy, of gigantic economic disproportions, of production bottlenecks. And out of these internal stresses and strains there arises the compelling need for foreign expansion.

It is for this reason that discussions of shifts in the Communist "line" are barren unless related to changes in the internal economic situation. To indulge in this indoor sport even with Russian officials leads to no clearer understanding of what is actually taking place, for the holders of authoritarian state power can never admit that they have either been mistaken or surprised.

Russian economic policy, as will be seen, follows no straight line of progress. It is cyclical; and with each cyclical change in policy, the official conceptions of the meaning of the Soviet state and of its aims are revised *ad hoc*. Each new stage is asserted to be the confirmation of a particular theory—the essence of the system requires the canonization of practices peculiar to the particular phase.

The very words by which changes in policy are announced and justified serve to obscure their meaning, so that language, in the last two decades, has become one of the most effective of iron curtains. American educators may recommend the study of the Russian language. But how shall the student of grammar penetrate the mysteries of the new *Lingua Estatica*? How shall he translate into terms expressing their real content "party line," "right-wing deviation," "left-wing deviation"?

Present political usage in Russia of the

terms "Left" and "Right" is quite unrelated to the traditional meaning of these terms, or even to their present meaning in other countries. In Soviet Russia, as in Nazi Germany, it must be understood that a "Left" turn means greater sacrifices on the part of the people in behalf of the state authorities, more power to the secret police and inner party circle of bureaucrats. A shift to the "Right," on the other hand, reflects a temporary curtailment of the claims of the state, a relaxation of central authority and of the pressure on the worker and the peasant-farmer.

THE shifts from "Left" to "Right" and from "Right" to "Left" constitute the cyclical pattern of Soviet history ever since its inception. Thus, the revolution began with a "Left" turn toward War Communism, and followed with a "Right" turn in 1921, a "Left" turn in 1928 and a "Right" turn in 1933, a "Left" turn in 1938 and—after the wartime vacuum—a "Right" turn in 1945. Since the end of the war, there has been a "Left" turn in 1946, followed by a "Right" turn in December 1947.

To understand the problems, needs, and motives of the government in the various phases of these cycles is to get at the root of the expansionist drive of the Russian state: it is to discover also that far from abolishing the cycle of boom and bust that leads to economic crisis, as Soviet theoreticians have always boasted, the Russian economic system has cyclical swings like those of capitalist countries, though different in cause.

The underlying reason for the periodic crises of the Soviet system is the disproportionate rise of non-productive expenditures. The totalitarian state is a huge parasitic body. Besides the ordinary administration, there are swollen armies of supervisors to supervise the bureaucracy, and a large military machine with its own personnel. These are the new high-income groups whose economic demands are steadily rising—to leave them unsatisfied would be to undermine the classes that form the social foundations

of the entire system. The "take" of this top strata of the state is quite apart from what are normally considered the "fixed costs" of an economy (administration, accounting, etc.); the tribute paid by all producers to the holders of political power far exceeds the practices of a private, capitalist social order, and only an authoritarian ruling group—backed to the hilt by a secret police—is able to extract it.

A few figures may be quoted to throw some light on the inflated size of these unproductive overhead costs. In 1937 the number of "bookkeepers, accountants, etc." was 1,617,000 in addition to 822,000 "economists, statisticians." In the United States in 1940 only 447,000 persons were employed as "bookkeepers, accountants, cashiers, ticket agents, etc." Thus the American economy required one "bookkeeper" for each 54 workers, the Russian one for each 20 workers. In all branches of the economy, inflated bureaucratic staffs have come into existence. In 1940 about 20 percent of all kolkhoz (collective farm) members were engaged in administrative or office work. The wage differentials that these officials enjoy are far higher than in capitalistic countries. The salaries of chief engineers, directors, and top administrative personnel are often one hundred times greater than the average worker's wage. In the Soviet Army the ratio of a private's pay to a colonel's is 1:240, against 1:5 in the American Army.

Yet, at the same time that these new "fixed costs" are far greater than in any capitalist country, the level of productivity in Russia is much lower: a vicious circle begins to squeeze the regime like a vise. The state must seek to bolster the economic system by ever more stringent controls or "planning," but, in turn, centralized controls, national monopolies, and the upkeep of a secret police, result in tremendous economic costs. The more the state seeks to increase its share in the national wealth, the more it contributes to waste and unproductive expenditures: that is the "business cycle" of Soviet economy—different from those of private capitalism, but no less disastrous.

JOHN D. LITTLEPAGE, who was a technical expert in Russia during the 30's, has given us a graphic picture of what "planning" means in the Russian system: "The number of these numerous planning departments increased by leaps and bounds, so that before long thousands of men and women were engaged throughout the year in the process of planning. They tried to keep busy, and spent a considerable part of their time thinking up questionnaires and forms of all kinds, which they sent out to our engineers and managers to be filled out. The business of filling out forms of this sort has become one of the chief functions of every Soviet executive's offices" (*In Search of Soviet Gold*, 1939).

It should not be surprising, then, that—aside from the incubus of secret police, "administrators," most government employes, and the like—the very process of planning itself imposes an almost intolerable strain upon the economy. State plans are changed almost from day to day, and soon there emerges an anarchic whirl of priorities: different urgencies are born with each new dawn, and orders and counterorders, priority ratings and competitive priority ratings, blanket the industrial machine. The following description of "planning" was officially presented at the 18th Congress of the Communist Party, in 1941:

"The industrial management often receives the plan (production schedules) for the next period (month) only two or three days before the first of the month.

"When the plant is ready to start production in accordance with the plan, the plan will be unexpectedly changed, and the entire work must be reorganized.

"Sometime the plan will be changed several times in one month.

"During the planning period, the . . . commissars will send telegrams to the plant managements with special orders to manufacture certain products without any provisions or materials, and without any indication of which other scheduled orders are to be cancelled so as to fulfill the new orders."

Though it appears from the outside that the state sits placidly in the center of its web and directs the life of the nation, in reality the various planning agencies are struggling desperately against bottlenecks, "deviations," and "sabotage," with successes or failures that mean life and death—not only for individuals—but for entire provinces. The administrative wheels of the bureaucratic colossus turn ever more feverishly, begetting a further chaos.

THE typical Soviet "business cycle" works something like this:

In the "Left" phase, the state (i.e., the party and its favorites) tries to strengthen its productive capacity and military strength and to increase its revenues. (Remember that Russia was a backward country in 1917 and that to increase her productivity means to industrialize her—which means in turn to invest goods and energies in creating the equipment of production instead of producing things to satisfy consumers' needs.) Great reliance is placed on central controls and the secret police. Capital goods production increases while consumer goods production dwindles to a trickle. The ration card replaces the ruble, but only a meager supply of the barest necessities with which to maintain life is available. "Sabotage" increases as a result of muddled plans. Productivity declines because of the lack of incentives to the workers. A spreading black market appears, and with it barter and a dual price system. Consumption by the state apparatus rises, and consumption by private individuals drops.

After an orgy of deficit spending, the government is faced with a sharp rise in expenditures, a drop in production, and the collapse of the entire system of distribution. Money no longer buys goods. The state responds with coercive measures against producers and employs mass terror against all sections of the population. These, however, only worsen matters. The authoritarian planners finally find the entire system in a deadly crisis, from which the only escape is through the door of capitalism.

A "Right" turn is on the order of the day. The worker is offered the incentives of a market economy. The state curtails its expenditures and invests less funds in the production of capital goods, while more consumers' goods are made available to the people. The black market is raised above ground and is sanctified as the "open" or "free" market, and finally rationing is abolished. Market values replace controlled prices—money is stabilized—police measures are relaxed—living standards rise.

But the totalitarian state cannot permit this "Right" turn to develop into a complete turnabout. With the increasing freedom of economic activity, private wealth begins to attract social prestige and political power, and presents itself as a possible source of opposition to the governing machine. Furthermore, the growing demands of private owners of money funds clashes with the financial requirements of industrialization and of the top-heavy state bureaucracy. A new crisis takes place, marked by "self-criticism" and purges, followed by a "Left" turn.

ON THREE different occasions in the course of Soviet history, the rate of government expenditures increased to the point where the smallest possible return was left to the producers. These were the periods 1919-21, 1928-33, and 1938-44. In the first period (War Communism), the printing press was the major source of government income, and inflation bore down heavily upon producer and consumer; in 1924, a new currency had to be introduced to replace the inflated ruble, and a freer market was permitted. But the first Five Year Plan (1928-33), which was a "Left" turn, saw a steep increase in the turn-over tax (one of the important means by which the government arrogated the fruits of production to itself in order to invest them in capital goods and the maintenance of the bureaucracy) and a second bout of printing-press inflation; in 1935, deflationary steps were taken, paper money was withdrawn, and the Soviet citizen could once again draw breath. But by 1937, government expendi-

tures once again began to surge ahead, and the turn-over tax levied by the regime amounted to sixty percent of the total value of retail trade sales.

Each monetary reform was preceded by a sharp crisis in production and by mass famine in town and country: all consumer goods were rationed, and the rations were not always to be had. At the same time, a black market undermined the official distribution system and absorbed an increasing proportion of consumer goods. Whenever a "Right" turn reintroduced money incentives, the production of consumer goods rose, with the government abolishing the rationing system and allowing the "free" market to determine distribution.

On the eve of the Nazi invasion of Russia, a new "Right" turn was overdue; but the danger of war forced the government to increase its share in production—especially that sector devoted to arms—even further. Faced with this dilemma, the Soviet government during the war maintained a kind of dual system. In many areas, money ceased to have any role: forced labor and direct requisitioning were applied. In other areas, not under immediate threat of invasion, the money return for the producer was increased, and the government even permitted a temporary decline in the rate of taxation. Consequently, large amounts of money were hoarded, and a return to a "free" market made more difficult.

Finally, in December 1947, the monetary reform that had been due in 1941 was promulgated. This was the signal for a "Right" turn—but it is a signal that has been obeyed only in part. For the government cannot, especially at present, take the full consequence of a "Right" turn. It cannot markedly reduce the overhead costs of the bureaucratic system, thin the ranks of government employees and soldiers, or scale down the pace of industrialization and preparation for war in order to allow a revival of consumer goods industries. So the Soviet government wavers, first taking a "Left" and then quickly a "Right" direction, until its policy is now a troubled and accelerated zig-zag.

War, war devastation, and war preparations have critically aggravated the difficulties of the system. A real turn to the "Right" requires the restoration of economic incentives and of a money-market. But this need comes up against the simultaneous need of the state to increase its industrial plant even faster, to finance an even more inflated state bureaucracy and a more costly militarism, including atomic research and installations.

Thus the completion of the "Right" turn becomes impossible. The cyclical pressure remains, but a full turn of the cycle is denied it. The cyclical crisis tends to become a permanent crisis. And, thus trapped, the system must look about frantically for an escape from its dilemma.

THE regime has two "remedies" on hand for this critical situation. They are (1) increased use of forced labor, (2) foreign expansion—or both.

The acute crises of Soviet economy are accompanied, not by mass unemployment as under capitalism, but by a drastic scarcity of labor, skilled and unskilled. During the "Left" periods of intensive industrialization and highly centralized planning, when economic waste increases and the productivity of labor declines for lack of incentives, the demand for labor far exceeds the supply. More and more workers are consumed by the system. The word "consumed" is used advisedly, since the workers work longer hours, at greater speed, and with less return.

During the revolutionary era of War Communism, it was possible to organize corps of workers who volunteered their free time. During the First Five Year Plan, slave-labor armies were recruited from among the middle-class farmers (kulaks) and others who were purged. Finally, in the postwar period, the economy was enriched by forced labor composed of foreign deported populations, prisoners of war, and native Russians—estimates of the total vary considerably, but they all agree in placing it in the millions.

Forced labor is, however, only a tempor-

ary expedient that spends itself. (It has a low productivity and a short life span.) Some other way to alleviate the onerous burden of the "fixed costs" of the Soviet economy must be found.

The other recourse of the Soviet system is to attach foreign countries to the Soviet system as "shock absorbers," whose function it is to contribute to the maintenance of the inflated state machine and the party hierarchy, and whose virtue it is to be expendable in the wasteful tragedy of Russian "planning," or industrialization. To flee the permanent economic crisis that looms before it, the Soviet economy must seek to transfer its deficits to the shoulders of satellite countries. That is the dynamic behind Soviet expansion.

It is not a "socialistic" dynamic, or even a "collectivist" one. It is, in the old-fashioned sense of the term, a "class" dynamic—an expedition for plunder on the part of a ruling class whose very existence throttles the workings of its own economic system. The main purpose of the Soviet occupation of the countries of Eastern Europe was not to hasten the advent of world socialism; all policies of reconstruction and reorganization in Poland, Rumania, Hungary, etc., have been subordinated to the needs of the Russian government—needs filled by the dismantling and transfer of factories, highly advantageous and one-sided trade treaties, and the like. The aim has been immediate benefit and advantage, not long-range socialist virtues.

But these immediate gains are soon dissipated in that giant whirlpool of bureaucratized chaos which is the Soviet economic system. They are in the nature of temporary blood-transfusions that quicken the patient's heart without healing the wound, and after a spurt of vigor he is once more bled dangerously white. New transfusions become ever more necessary, and they are sought for, grimly, at the point of a bayonet.

Using the Marxist phraseology, it is the "contradictions" of the Soviet statist economy that lead irresistibly to imperialist expansion—and possibly war.